

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 96-282-C - ORDER NO. 97-191  
MARCH 11, 1997

IN RE: Application of GTE South, Inc. ) ORDER  
for Approval of Depreciation Rates ) APPROVING  
to be Effective January 1, 1996. ) DEPRECIATION  
 ) RATES

This matter comes before the Public Service Commission of South Carolina (the Commission) on the request of GTE South, Inc. (GTE or the Company) for approval of a new schedule of depreciation rates. The Company requests that the rates be made effective January 1, 1996. The Company's Application was filed pursuant to S.C. Code Ann. Section 58-9-350 (1976), and the Regulations of the Public Service Commission of South Carolina.

The Commission's Executive Director instructed GTE to publish, one time, a prepared Notice of Filing in newspapers of general circulation in the affected areas. The purpose of the Notice of Filing was to inform interested parties of GTE's Application and of the manner and time in which to file the appropriate pleadings for participation in the proceeding. GTE complied with this instruction and provided the Commission with proof of publication of the Notice of Filing. A Petition to Intervene was received from the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

A hearing was held on January 30, 1997 at 10:30 a.m. in the offices of the Commission, with the Honorable Guy Butler, Chairman, presiding. The hearing was continued on February 17, 1997. GTE was represented by Joe Foster, Esquire and Steven W. Hamm, Esquire; the Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire; and the Commission Staff (the Staff) was represented by F. David Butler, General Counsel. GTE presented the testimony of Allen E. Sovereign. The Consumer Advocate presented the testimony of Allen G. Buckalew. The Staff presented the testimony of David S. LaCoste.

Allen Sovereign, GTE's Manager of Capital Recovery, testified in support of GTE's proposed depreciation rates in the State of South Carolina. Sovereign testified that he used a set of assumptions about lives, salvages, and curve shapes that would be most prevalent across GTE's service area. Sovereign testified that the depreciation rates proposed by the Company would result in an annual increase of \$6.4 million, which would amount to a \$5 million increase in intrastate depreciation expense. GTE stated that the competitive environment seen in today's telephone industry should be taken in account in the Commission's current deliberations on this matter, and when determining a proper recovery period for the Company's assets.

Allen G. Buckalew testified for the Consumer Advocate. Buckalew adopted the values recommended by the Federal Communications Commission (FCC) for the interstate portion. Buckalew states that his recommendations are based on what is

actually happening to GTE's assets in South Carolina. Buckalew states that FCC salvage, values and projection lives should be used. With regard to the projection lives, Buckalew noted that, in his opinion, the parameters were reasonable and were within the industry range of values. Second, using the same values for both interstate and intrastate is easier, according to Buckalew, and less costly to both the Company and the Commission. Buckalew's final recommendation was that this Commission adopt the FCC's prescribed rates.

David S. LaCoste testified on behalf of the Staff. LaCoste stated that he agreed with many of the Company's proposed changes, but suggested certain modifications involving projection life and salvage value parameters used in the development of new depreciation rates. LaCoste's proposals would result in an overall increase of intrastate expense of approximately \$3,320,000, which is \$1,649,000 less than the Company's intrastate proposal. LaCoste stated that his analysis was based primarily on comparisons of projection life and salvage potential with values used by other telephone companies for their South Carolina operations, specifically BellSouth, AllTel and United, when available. LaCoste also obtained and reviewed GTE Company data from the states of North Carolina, Kentucky, and Alabama. Parameters used by the FCC for interstate booking purposes were also considered by LaCoste. LaCoste stated that this information, plus the data presented within the GTE depreciation study, allowed a judgment to be made as to the reasonableness of the Company's

proposals concerning the parameters under review for the individual accounts. LaCoste agreed with the Company's proposals in most cases, but for several accounts, notably those involving metallic and fiber optic cable, LaCoste felt that the projection lives should be somewhat longer than what the Company proposed. LaCoste noted that he looked at the BellSouth parameters with particular emphasis, since, under today's environment, BellSouth operates under a "price cap" regulatory scheme in which their intrastate depreciation rates are not regulated. Therefore, LaCoste's assumption was that Bell would set its own rates so as to correspond the true operational and market conditions as much as possible. LaCoste stated that his numbers would allow for an overall faster write-off of the accounts under review than what would be allowed with the FCC's rates, and that his proposals more accurately reflect conditions both experienced and expected within comparable telephone company operations.

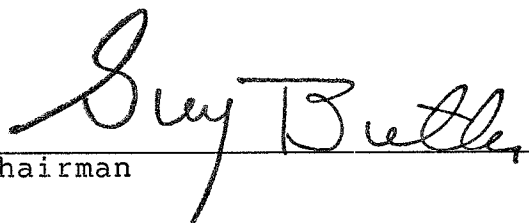
We have examined this matter, including all of the testimony and exhibits presented by the witnesses for the Company, the Consumer Advocate, and the Staff, and must state that, although we agree that the adoption of depreciation parameters is somewhat judgmental, we believe that the Commission Staff's numbers most accurately reflect industry conditions today, and take into account the competitive telephonic environment that presently exists. The cost recommendations, we believe, are appropriate for adoption in today's competitive telecommunications environment and represent what we think is reasonable judgment, based on a study

of data from other South Carolina telephone operations and certain other telecommunications information obtained from other states. The Commission believes that all studies presented are meritorious in their own right, but that the Commission Staff study presents the best compromise between use of the traditional depreciation methodology and what is appropriate under today's competitive technological environment. We therefore adopt Staff's depreciation rates which are fully set forth herein as Appendix A. Said rates shall be effective January 1, 1996.

We also note that the dissent in this matter would adopt an annual increase in depreciation expense of \$1.8 million. However, on the date of discussion before the Commission, we would note that the dissenting Commissioner failed to present a discussion of accounts appropriate for modification to meet his goals. In any event, we think that the Staff position is the most appropriate for adoption, and do so adopt it.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Deputy Executive Director

(SEAL)

**DISSENTING OPINION OF COMMISSIONER WARREN D. ARTHUR, IV:**

I respectfully dissent from the majority opinion in this matter. Based on the testimony presented during the hearing on this matter, I believe that the Commission has the flexibility and discretion to approve and set depreciation rates anywhere in the range from no increase in depreciation expense (a full denial of GTE's request) to approximately \$5,000,000 (approval of GTE's entire request).

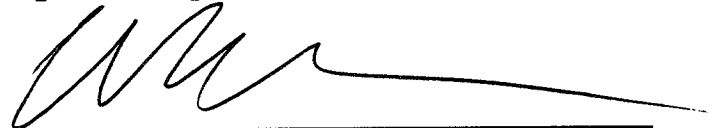
At the Commission meeting, at which the decision on this matter was rendered, I moved that the Commission approve \$1,800,000 in additional depreciation expense for GTE. The \$1,800,000 amount was offered as an attempt to provide a resolution to the excess earning situation involving GTE South from the September 1996 quarterly surveillance reports. (The Commission had previously deferred action on the excess earning situation until the decision on the instant depreciation rate request was decided, and GTE had offered its requested depreciation rates as a solution to the excess earning situation.) I believe that the proper level of additional depreciation expense granted to GTE should be equal to the amount by which GTE is earning in excess of its authorized rate of return as of September 1996.

Prior to the Commission's decision on this matter, I contacted Gary Walsh, Deputy Executive Director of the Commission, to ascertain whether the Staff could calculate depreciation rates

which would produce approximately \$1,800,000 in additional annual depreciation expense. Mr. Walsh informed me that the Staff could design depreciation rates which would produce an additional \$1,800,000 in annual depreciation expense. Based on the Company's excess earning situation and the information obtained from Mr. Walsh, I made the motion to fix depreciation rates for GTE which would increase annual depreciation expense by \$1,800,000.

Additionally, my motion to increase annual depreciation expense by only \$1,800,000 was based in part on my continued concern that this Commission has established a pattern of making decisions which are too much in favor of the regulated utilities and adverse to the consumers of this State, and in recognition of the position proposed by the Consumer Advocate and the FCC's decision which would have equated to a minimal increase on an intrastate basis.

Respectfully submitted,



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Warren D. Arthur, IV  
Commissioner, Sixth District

STATEMENT

In response to the Dissent, the undersigned Commissioners state as follows:

During the discussion in the Commission Meeting prior to the vote, the Dissenting Commissioner was asked with which

remaining useful lives proposed by the Staff he disagreed. He did not know. He was only able to say that he was told that Staff could develop rates to reach an additional depreciation expense of 1.8 million dollars. This is backwards. The issue before the Commission was the appropriate depreciation rates, not an arbitrary level of expense. A schedule of rates producing the 1.8 million dollar additional expense was not before the Commission. The Dissenter was asking the Commission to vote to approve depreciation rates which were not even in existence. We would not know the remaining useful lives of the plant we would be voting on and could not know whether they were reasonable. This is arbitrary and capricious.

Conversations by a Commissioner with another person regarding the case without notice to all the parties and an opportunity for them to be present are not part of the record. There was also no statement by that person that such rates would be reasonable, merely that mathematically it could be done.

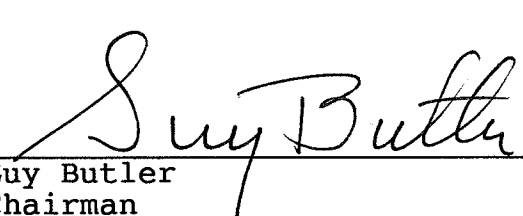
Even if the Dissenter is correct that we were able to approve any level of additional expense [which was not the issue] in between those testified to, it would be

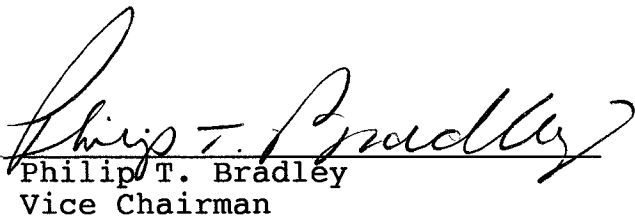


irresponsible of the Commission to vote for rates to be developed sometime in the future. The rates should be before the Commission at the time the vote is taken. At a minimum, the Dissenter should have developed the schedule of useful lives and rates before the meeting and been able to discuss his reasons for his proposed remaining useful life of each account. He should not, and cannot reasonably, expect the Commission to blindly find that a useful life of an account and the resulting rate is fair and reasonable without even knowing what it is. The hearing concluded on February 17 and the vote was not taken until March 4, therefore, if there was sufficient interest, there was plenty of time to develop the rates which, as of the date of the Order, were still not in existence.

As to the FCC's approved schedule of depreciation rates mentioned in the Dissent, the Dissenter should read Louisiana Public Service Commission v. The Federal Communications Commission, 476 U.S. 355 (1986)

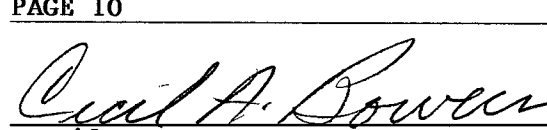
As to his comment in the last paragraph of the Dissent, it is emphasized that the Utility's proposal was not adopted, the Commission's own Staff's proposal is that which was adopted. The provision of adequate depreciation rates to encourage investment in a modern telecommunication infrastructure is in the interest of the consumer.

  
Guy Butler  
Chairman

  
Philip T. Bradley  
Vice Chairman

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Cecil A. Bowers  
Commissioner



William "Bill" Saunders  
Commissioner



C. Dukes Scott  
Commissioner

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APPENDIX A

ACCOUNT		GTE APPROVED DEPRECIATION RATES
=====		=====
2112	Motor Vehicles	12.1
2115	Garage Work Equipment	3.3
2116	Other Work Equipment	6.8
2121	Buildings	4.1
2122	Furniture	3.6
2123	Office Equipment	---
	-- Office Machines	24.4
	-- Company Communications Equip.	17.0
2124	General Purpose Computers	31.0
2212	Digital Electronic Switching	8.8
2220	Operator Ststems	20.8
2232	Circuit Equipment	14.4
2351	Paystations	5.2
2362	Other Terminal Equipment	3.5
2411	Poles	6.6
2421	Aerial Cable	---
	-- Metallic	8.1
	-- Fiber	4.5
2422	Underground Cable	---
	-- Metallic	7.9
	-- Fiber	4.7
2423	Buried Cable	---
	-- Metallic	6.8
	-- Fiber	5.0
2424	Submarine Cable	2.1
2426	Intra-Building Cable	3.7
2431	Aerial Wire	0
2441	Conduit Systems	2.4

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